

M E M O R A N D U M

To: SAK
From: VK
Dated: May 17, 1982
Re: UNIVERSAL'S STANDING TO SUE FOR UNFAIR
COMPETITION REGARDING "KING KONG"

FACTS:

Merian Cooper created the name, character and story "King Kong" sometime between 1929 and 1931. In 1932, Merian Cooper licensed to RKO the right to produce one motion picture photoplay using the character, name and story "King Kong." RKO subsequently granted licenses or permissions, or otherwise allowed and approved, the use of the name, character and story "King Kong" in connection with the making of different motion pictures and various forms of merchandising.

In 1976, the court held that as between RKO and Richard Cooper (Merian Cooper's son) all rights in and to the use of the name, character and story "King Kong," other than the right to produce the motion picture photoplays "King Kong" and "Son of Kong," as published by RKO, and to copyright and to renew the copyrights in said motion pictures, are exclusively vested in and solely owned by Richard Cooper.

The court held that to the extent RKO received benefits from any other use or licensing of the use of the name, character or story "King Kong," it did so as a constructive trustee for Richard Cooper.

After the Cooper Interlocutory Judgment against RKO, Richard Cooper, in an Agreement dated December 15, 1976, assigned to Universal all of his right, title and interest in the story, in the 1933 motion picture photoplay produced by RKO, in all sequels to that photoplay, and in the Cooper Judgment against RKO, including all rights which may flow from said Judgment. However, Richard Cooper did reserve the world-wide publishing rights, except to the extent that such rights may be in public domain.

In a Settlement Agreement dated June 4, 1980 between RKO and Universal, RKO essentially agreed not to sue Universal, its assignees or licensees, for the making, production, distribution or exploitation by Universal, its assignees or licensees of any future motion picture or motion pictures (1) using the name, title, character or story "King Kong," or (2) based on all or any portion of the motion pictures "King Kong," or "Son of Kong," released by RKO in the 1930's.

For purposes of this memo, it will be assumed that: (1) "King Kong," by virtue of its exploitation by RKO, developed a secondary meaning, (2) other than as beneficiaries of RKO's exploitation, neither Merian nor Richard Cooper exploited "King Kong" to an extent sufficient to give it a secondary meaning, (3) Universal itself has not exploited "King Kong," in a manner sufficient to give it a secondary meaning, and (4) Universal employed fraudulent representations in its application for a trademark in "King Kong."

Universal wants to know whether it has standing to sue, in its own name, a Japanese video game manufacturer under either the Lanham Act or the common-law of unfair competition with regard to "King Kong."

ISSUES:

1. Under the Lanham Act, does Universal have standing to sue in its own name?
2. Does Universal have standing to bring a California common-law unfair competition claim in its own name?
3. Can Universal withdraw its application for a trademark without prejudicing its substantive rights?

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CONCLUSIONS:

1. A court should hold that Universal has standing to sue in its own name under the Lanham Act.

The Act grants standing to anyone who "is likely to be injured" by the proscribed conduct. Cases construing the Act have held that the dispositive issue for determining standing is whether the party has a reasonable property interest to be protected against the unfair competition. A party may have standing regardless of whether the mark is registered, the party is the owner of the mark, or the party is in direct competition with the alleged infringer.

2. A court should hold that Universal has standing to bring a common-law unfair competition claim in its own name.

A recent California Appellate Court decision has held that the dispositive issue in determining standing is whether the party has a sufficient property interest to be protected against unfair competition. The court specifically held that the distributor of a motion picture has standing to sue in its own name even though its unfair competition claim is based on an alleged secondary meaning, attaching to the film's title, which was developed by someone other than the party seeking relief, i.e., other than the distributor.

Allied Artists Corp. v. Friedman, 68 Cal.App.3d 127,134 (1977).

3. Universal should be able to withdraw its trademark application without affecting its underlying substantive rights.

The Trademark Rules of Practice specifically provide that the express abandonment of an application shall not affect any right that the applicant may have in the mark which is the subject of the abandoned application.

A claim of unfair competition by Universal, whether based on the Lanham Act or the common-law, is not dependent on the registration of the mark.

ANALYSIS:

1. The Lanham Act.

The Lanham Act, § 43(a), grants standing to sue to "any person who believes that he is or is likely to be damaged by the use of any such false designation or representation." Lanham Trademark Act, § 43(a), 15 U.S.C.A. § 1125(a). The dispositive question for determining standing is whether the party has a reasonable interest to be protected against the conduct proscribed by the Act. Smith v. Montoro, 648 F.2d 602,608 (9th Cir. 1981) (actor has standing to sue for

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film distributor's removal of his name from the film credits and advertising).

"The broad use of the words 'any person' rather than a narrower designation appears clearly to reflect a legislative purpose to protect competitive users of trademarks whether or not they are owners of the mark." D.M. Antique Import Corp. v. Royal Saxe Corp., 311 F.Supp. 1261,1268 (S.D.N.Y. 1970). Furthermore, "the plaintiff under § 43(a) need not be in actual competition with the alleged wrongdoer." Smith v. Montoro, supra, at 607; Fleishman Distilling Corp. v. Maier Brewing Co., 314 F.2d 149,151 (9th Cir. 1963), cert. den., 374 U.S. 830, 83 S.Ct. 1870 (plaintiff had standing even though its product, whiskey, was not in direct competition with defendant's product, beer); Rare Earth Inc. v. Hoorelbeke, 401 F.Supp. 26,39 (S.D.N.Y. 1975) (involving the name of a musical group). See also, National Lampoon, Inc. v. American Broadcasting Cos., Inc., 376 F.Supp. 733,746 (S.D.N.Y. 1974) (plaintiff's plans to expand into network television in the future might be hindered by broadcast of defendants' program; plaintiff had standing to sue under § 43(a) as someone "likely to be damaged").

The registration of a trademark is not a prerequisite for recovery under § 43(a). New West Corp. v. NYM Co. of California, Inc., 595 F.2d 1194,1198 (9th Cir. 1979) ("To recover for a violation of this section it is not necessary

that a mark or trade-mark be registered. The dispositive question is whether the party has a reasonable interest to be protected against false advertising." (Citations omitted.)

The Lanham Act, § 43(a), on its face and as construed, indicates that Universal has standing to sue under the Act as a party who has a property interest which is "likely to be damaged" by the wrongful conduct. See, e.g., Morris Corporation v. Weinstein, 466 F.2d 137,142 (5th Cir. 1972) (plaintiff had the exclusive right to purchase, directly from the Omega Watch Company, Omega watches to be sold in the U.S. and Puerto Rico; plaintiff's interest against unfair competition involving Omega watches held sufficient to grant plaintiff standing under the Lanham Act). The right of Universal to exploit the name, character and story "King Kong," obtained by virtue of the Cooper Assignment and related judgments, seems to constitute a specific property interest sufficient to warrant protection under the Lanham Act. Universal is in a different position than that of consumers generally. See, Smith v. Montoro, 648 F.2d at 608.

2. Common-Law Unfair Competition.

The dispositive question for determining standing to sue on the basis of common-law unfair competition, as with the Lanham Act, appears to be whether the party has a

property right sufficient to entitle it to protection against unfair competition. Allied Artists Pictures Corp. v. Friedman, 68 Cal.App.3d 127,134,137 Cal.Rptr. 95,98 (1977).

In Allied, the court held that Allied, "by virtue of its exclusive right to market the film in question in the United States, has a property right in the film sufficient to entitle it to protection against unfair competition." Allied, 68 Cal.App.3d at 134.

The court in Allied granted Allied relief on its unfair competition claim based on the determination that the title "Story of O" had acquired a secondary meaning. The court specifically held that:

"It is unimportant that the secondary meaning resulted from the activities of persons other than Allied. (Citations omitted.) The critical question is whether the secondary meaning had been established in the public mind and not the precise manner in which it was created. Defendant's assertion that Allied could only benefit from a secondary meaning which is attributable to its own activities reflects defendant's misconceived

notion of the importance of the concept of property right."

The holding in Allied further indicates that Universal would have a right to sue for unfair competition even if it were determined that the Japanese manufacturer had entered the market before Universal itself had begun to exploit "King Kong." Allied, 68 Cal.App.3d at 134 ("The result is not altered by the fact that defendant's film was released in the United States prior to Allied's release of its film.")

Universal, by virtue of the Assignment to it by Cooper, has a substantial property right, to the use and exploitation of the name, character, and story "King Kong." Universal's property right appears to be sufficient to entitle it to protection against unfair competition, i.e., sufficient to entitle Universal to standing to sue in its own name on the grounds of common-law unfair competition.

3. Withdrawal of the Trademark Application

The Trademark Rules of Practice, § 2.172, provide that "upon application by the registrant, the Commissioner may permit any registration to be surrendered for cancellation." The Trademark Rules of Practice, § 2.68, also state that "the fact that an application has been expressly abandoned

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shall not, in any proceeding in the Patent and Trademark Office, affect any right that the applicant may have in the mark which is the subject of the abandoned application."

Courts have held that the cancellation of a trademark affects the registration of the mark, but "has nothing to do with the divestiture or cancellation of trademarks."

Hammermill Paper Co. v. Gulf States Paper Co., 337 F.2d 662, 663 (U.S. Court of Customs and Patent Appeals, 1964).

See also, Best & Co. v. Miller, 167 F.2d 374, 376 (2d Cir. 1948) (registration confers only procedural advantages and does not enlarge registrant's substantive rights). Consistent with this reasoning, it has been held that a cancellation of a trademark is not a determination of the plaintiff's right to use the mark. Hammermill Paper Co. v. Gulf States Paper Co., supra. It also has been held that the cancellation of a trademark does not affect the plaintiff's right to sue on the basis of common-law unfair competition. National Trailways Bus System v. Trailway Van Lines, Inc., 269 F.Supp. 352, 357 (E.D.N.Y. 1965) (plaintiff may recover on a claim of common-law unfair competition despite the fact that its registrations were cancelled because of material fraudulent representations in its applications.)

Based on the Trademark Rules of Practice, on their face, and the reasoning of courts in applying those rules, it would appear that Universal would not prejudice any

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underlying substantive rights in the mark if it were to withdraw its trademark application. Registration of a mark is not a prerequisite to recovery based on either the Lanham Act or common-law unfair competition. See, Smith v. Montoro, supra, at 605,608. The fact that a mark was registered under false pretenses, and the registration then withdrawn, would not seem to deny plaintiff its right to recovery on any underlying substantive rights.

GENERAL COMMENTS:

1. Universal as Assignee of Cooper's Rights.

Universal appears to have standing to sue in its own name under both the Lanham Act and common-law unfair competition. In determining whether a party has standing, the courts seem to focus on whether the party has a sufficient property interest rather than on how that property interest was developed (e.g., who developed the secondary meaning in the given product). Under this reasoning, the determinative factor for standing is whether Universal has a sufficient property interest, which it appears to have based on the Cooper assignment, regardless of whether that property interest is characterized as a license or an assignment.

However, if Universal's property rights were characterized as the rights of an "assignee," as opposed to

a mere "licensee," then Universal would seem to have an alternative basis for standing. An assignee, by generally acquiring the rights of the trademark owner, is the "real party in interest" and thus has standing to sue in its own name for an unjust impairment of those rights. Syntex Laboratories v. Norwich Pharmaceutical Co., 315 F.Supp. 45, 47 (S.D.N.Y. 1970), aff'd 437 F.2d 566 (2d Cir. 1971); Andrew Jergens Co. v. Woodbury, Inc., 273 F. 952, aff'd 279 F. 1016 (3d Cir. 1922); McCarthy, 1 Trademarks and Unfair Competition, §§ 18:2, 18:4, pp. 610-613 (1973). See also, Tomlin v. Walt Disney Productions, 18 Cal.App.3d 226, 238-39, 96 Cal.Rptr. 118 (1971) (unqualified assignment of a musical composition, including the title, words, and music to the song, made the assignee, not the plaintiff-assignor, the "real party in interest" who would be entitled to bring suit for unfair competition; although the assignee in Tomlin was the party who developed the secondary meaning in the work, the court relied on the assignee's "ownership interest" rather than on the assignee's activities in developing a secondary meaning in its analysis and determination of the standing issue).

The characterization of Universal as an assignee appears reasonable in light of the nature and terms of the Cooper Assignment to Universal. The Cooper Assignment seems to grant to Universal generally all rights in the name, character, and story "King Kong," including the right to use

the mark itself, to merchandising in connection therewith, and to the goodwill associated with the mark, in perpetuity, subject to the sole reservation of publishing rights.

An assignment may be valid even though certain rights are reserved in the assignor. Syntex Laboratories v. Norwich Pharmaceutical, 315 F.Supp. at 47, 54-56 (assignment of mark and associated good will, with license-back to assignor, held valid, thereby entitling assignee to standing to assert its rights in the mark; the "license-back" involved the continued manufacture and sale of the product after the assignment but before assignee's introduction of the product into the market); Andrew Jergens Co. v. Woodbury Inc., 273 F. at 959-60 (agreement generally transferring all rights in a mark, subject only to limited reservations, held to be a valid assignment; reservations to the granting of an exclusive right to the use of the mark were (1) possible conflicting rights previously granted or given to other persons allowing the mark to be used on certain beauty treatment products, and (2) right of the assignor to continue using the mark so long as it continued in the active business of providing professional beauty treatments, but not otherwise).

A full assignment of all rights in the mark with a license-back is preferable to a limited assignment because "it avoids the implication that the original assignment transferred something less than all the goodwill associated with the trademark." McCarthy, Trademarks and Unfair Compe-

tion, at § 18:1, p. 608. The Cooper Assignment to Universal does not seem formally structured as an assignment with a license-back. Nonetheless, the intent of the parties, as reflected in the terms of the Cooper Assignment to Universal, seems to indicate that the Cooper Assignment is more analogous to a full assignment with a license-back than to a limited assignment; Cooper transferred almost all rights in the name, character, and story "King Kong," including the goodwill associated therewith, and reserved only the publishing rights. Therefore, the Assignment to Universal probably would be held a valid assignment.

The fundamental policy of consumer protection is a central consideration in determining the validity of an assignment. Syntex Laboratories v. Norwich Pharmaceutical, 315 F.Supp. at 54-56. Therefore, a court will be reluctant to categorize as an "assignment" a transfer of the right to use a mark without a transfer of the underlying goodwill because the assignee's use of a recognized mark in connection with a different goodwill and different product might result in a fraud on the purchasers. McCarthy, Trademark and Unfair Competition, at § 18.1, p. 607. In this case, however, because the Cooper Assignment apparently transfers to Universal almost all of the rights and underlying goodwill in the name, character and story "King Kong," subject only to a limited reservation, the characterization of the Cooper

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transfer as an assignment would seem to be consistent with the general public policy concern of consumer protection.

There is no legal requirement, under either federal or California law, that the assignment be recorded in order to be valid. Teter v. Rheem Manufacturing Co., 334 F.2d 784, 786-7 (7th Cir. 1964); California Business & Professions Code, § 4260 (the assignment may be recorded so as to protect the assignee against a subsequent bona fide purchaser from the assignor).

If Universal were held to be an assignee of Cooper's rights, then Universal should have the same standing to protect those rights as did its predecessor, i.e., as did Cooper before he had assigned his rights. Therefore, the next question is whether Cooper himself, had he not assigned his rights, would have standing to bring suit in his own name.

The Cooper Judgment against RKO indicates that Cooper would have standing to sue in his own name to protect his interest in the name, character, and story "King Kong." The court held that any benefits stemming from RKO's exploitation of "King Kong" (other than the limited right to produce and copyright the two 1930's motion pictures) inured to the benefit of Cooper, the rightful owner of the name, character, and story "King Kong." "Any benefits" would seem

to include any increase in the value of Cooper's interest which stems from the secondary meaning attaching to "King Kong" as a result of RKO's activities. Cooper, as rightful owner of the name, character, and story "King Kong," certainly should have standing to protect his rights as owner. This result should not be altered by the fact that Cooper's rights may have increased in value due to RKO's unjust exploitation of "King Kong," particularly after a court judgment held that the benefits of such exploitation by RKO relate back to Cooper. See, Tomlin v. Walt Disney Productions, 18 Cal.App.3d at 239 ("An accretion in the value of the property, including the acquisition of a secondary meaning for the title, necessarily belonged to the owner, to wit, the publisher.") There does not seem to be much risk that a court would hold that Cooper would have had to join with RKO to assert an unfair competition claim.

A court probably would hold that Cooper, before the Assignment to Universal, would have had standing to sue in his own name as the rightful owner of the name, character, and story "King Kong," under both the Lanham Act and common-law unfair competition. Therefore, Universal, as the apparent assignee of Cooper's rights, also should have standing to sue in its own name under either statutory or common-law unfair competition claims.

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There is some risk that a court would hold Universal to be a mere "licensee," perhaps based on the reservation of publishing rights by Cooper. This result, though unlikely based on the preceding analysis, see supra at 12-15, would require a suit based on an ownership interest in the mark to be brought in the name of the licensee and the licensor, i.e., in the names of Universal, the "licensee" and Cooper, the "licensor" and "owner" of the mark. See Silverstar Enterprises, Inc. v. Aday, (S.D.N.Y. Mar. 31, 1982) (a summary of the case is attached to this memo).

However, even if characterized as a "licensee," Universal nonetheless may have standing to sue in its own name under the Lanham Act or common-law unfair competition by virtue of the rights Universal does possess, i.e., Universal's rights, to the extent granted it by Cooper, to exploit the name, character and story "King Kong." Cooper's grant of rights to Universal seems to provide Universal with a sufficient interest to protect against unfair competition, regardless of whether Universal has an "ownership interest" in the mark. See, infra at 5-9, 19-21.

If a court were to hold that the assignment to Universal was an "assignment in gross," i.e., a purported assignment of the mark without a transfer of the underlying goodwill, then the assignment would be held invalid and no rights would have transferred to Universal as a result of

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such an "assignment." This holding seems unlikely, based on the preceding analysis. See supra at 12-13. However, this result, i.e., a characterization of the assignment as an "assignment in gross," would be more problematic than a characterization of Universal as a "licensee." If a court were to hold that none of Cooper's rights were transferred to Universal, combined with the fact that Universal itself apparently has not exploited "King Kong" or otherwise acquired an interest of its own in "King Kong," Universal would not seem to have a property interest sufficient to grant it standing under either the Lanham Act or common-law unfair competition. See, McCarthy, 1 Trademark and Unfair Competition, at § 18.5, pp. 613-616.

2. Amendment of the Trademark Application.

On May 17, 1982, I spoke on the telephone with Bob Hadl and he indicated that Universal was no longer very concerned about the validity of the trademark application for "King Kong" filed in November or December of 1981. Bob felt that the application filed was arguably correct, i.e., it probably would not be subject to invalidation on the basis of alleged misrepresentations.

On May 17, 1982, I also spoke on the telephone with Michael Cleary regarding the trademark issues, without identifying our client. Mr. Cleary indicated that if the

application had not been approved yet, i.e., the registration not issued, Universal could file an Amendment to its application, simply stating whatever changes it felt warranted. According to my conversation with Bob Hadl, Universal's application has not been approved yet so such an Amendment could be made.

In any event, Mr. Cleary indicated that Universal also could file an Amendment even after the application were approved and the registration issued. A possible advantage of filing an Amendment now, i.e., before the Trademark Office rules on the application, would be avoiding the risk that the Trademark Office might reject Universal's application on the basis of alleged fraud.

Mr. Cleary felt that if the only amendment to the registration would be a statement that the previous use of the mark was by a predecessor in interest, then an amendment would not be necessary. If Universal were to make the amendment, it would not have to state who the predecessor in interest was.

However, if the application states that the mark is in actual use by the applicant, i.e., by Universal, and that is not true, then Mr. Cleary felt that Universal should withdraw the application and file a new accurate application.

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If Universal were to decide to withdraw the application or registration, the withdrawal could be done by Universal's attorney of record simply sending a letter stating that Application, or Registration, No. _____ is hereby withdrawn. No reasons for the withdrawal need be given.

Mr. Cleary said that he "would not worry" about a withdrawal affecting any underlying substantive rights.

3. Silverstar Enterprises, Inc. v. Aday.

The following are my initial reactions to the recent decision of U.S. District Court for the Southern District of New York decision in Silverstar Enterprises, Inc. v. Aday, March 31, 1982. (Summary of case is attached to this memo.)

a. The Silverstar decision relied heavily on the fact that Silverstar merely was granted a five-year license to use the mark in association with the marketing of clothing and other articles bearing the mark, i.e., the fact that the transfer to Silverstar was limited both in the scope of rights granted and in period of time.

b. The infringement action by Silverstar was held to be inappropriate because Silverstar, a "licensee"

and not an "assignee," had no standing to claim an ownership interest in the mark as against its licensor. The action by Silverstar essentially was a contract dispute between licensee and licensor as to the scope of rights which the licensor had granted to the licensee for the five-year contract period.

c. The court in Silverstar noted that the action involved the alleged breach of a license agreement, and not an unfair competition claim based on the conduct of third parties which infringed on rights of the licensee or licensor.

Given the Silverstar decision, it may be important to characterize Universal as an "assignee" of Cooper's rights. The nature of the Assignment, i.e., the transfer to Universal of almost all rights in the name, character, and story "King Kong," in perpetuity, supports this characterization.

If a court were to characterize Universal as an "assignee," then Universal should have standing to assert an ownership interest in the mark. See, pp. 12-16, supra. See also, 15 U.S.C.A. § 1114 (defining "registrant" to include assigns of the registrant).

The Universal situation also is distinguishable from Silverstar because Universal wants to bring an unfair

competition claim against a third party. This distinction is crucial because Universal has a certain property interest in "King Kong," independent of an "ownership interest," which is not being disputed by Cooper or by RKO and is supported by the various settlement agreements and judgments. Universal apparently has standing to protect that property interest against unfair competition by third parties. See pp. 5-9, supra. Therefore, the issue in the proposed action by Universal seems to be whether "Donkey Kong" infringes on Universal's recognized property interest, not whether Universal has such an interest.

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ROSENFELD, MEYER & SUSMAN

MEMORANDUM

Date May 17, 1982

To SAK

From VK

Subject UNIVERSAL'S STANDING TO SUE / "DONKEY KONG"

This is a summary of my conclusions on Universal's standing to sue in its own name under both the Lanham Act and common-law unfair competition:

Lanham Act

A court should hold that Universal has standing to ~~sue~~^{sue} in its own name under the Lanham Act.

The Act specifically grants standing to "anyone who is likely to be injured" by the unfair competition. Courts have held that the dispositive issue for determining standing is whether the party has a reasonable interest to be protected against the unfair competition. Courts have held that a party with such an interest has standing independent of whether the mark is registered, the party is the owner of the mark, or the party is in direct competition with the alleged infringer. See Smith v. Montoro, 648 F.2d 602, 605-08 (9th Cir. 1981).

Common-Law Unfair Competition

A court should hold that Universal also has standing to sue in its own name on a common-law unfair competition claim.

As with a Lanham Act claim, the dispositive issue for standing to bring a common-law unfair competition claim appears to be whether the party has a property right sufficient to entitle it to protection against unfair competition. In Allied Artists Pictures Corp. v. Friedman, the California Appellate Court held "that Allied, by virtue of its exclusive right to market the film in question in the United States, has a property right in the film sufficient to entitle it to protection against unfair competition." 137 Cal.Rptr. 95, 98, 68 Cal. App.3d 127, 134 (1977). The court specifically held that "it is unimportant that the secondary meaning resulted from the activities of persons other than Allied." Id.

Withdrawal of the Trademark Application

The Trademark Rules of Practice, §2.172, provides that "Upon application by the registrant, the Commissioner may permit any registration to be surrendered for cancellation."

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The Trademark Rules of Practice, §2.68, also state that "the fact that an application has been expressly abandoned shall not, in any proceeding in the Patent and Trademark Office, affect any right that the applicant may have in the mark which is the subject of the abandoned application." Registration of a mark is not a prerequisite to recovery based on either the Lanham Act or common-law unfair competition. See Smith v. Montoro, supra, at 605, 608.

Furthermore, a court has specifically held that a plaintiff may recover on a claim of common-law unfair competition despite the fact that its registrations were cancelled because of material fraudulent representations in its applications. National Trailways Bus System v. Trailway Van Lines, Inc., 269 F.Supp. 352, 357 (E.D.N.Y. 1965).